HOUSING MARKET OUTLOOK
Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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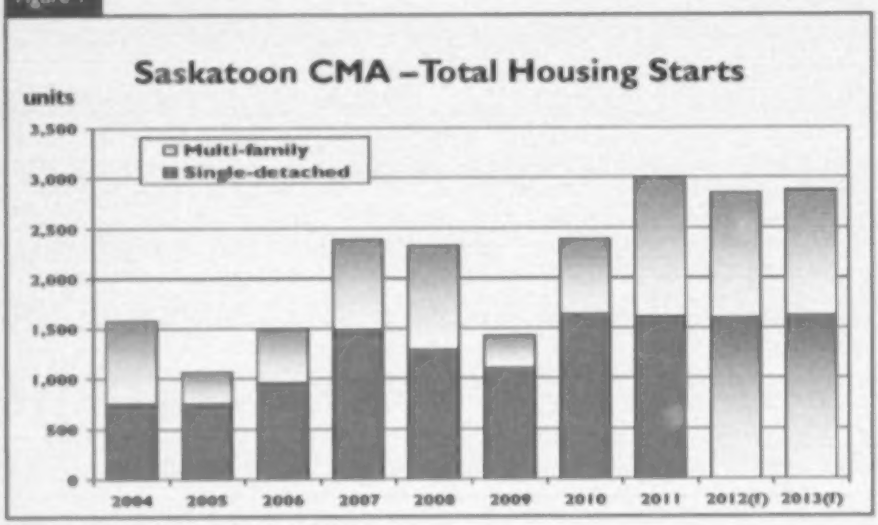
NEW HOME MARKET

Housing starts to moderate this year, increase in 2013

Despite a relatively weak job market in 2011, the combination of slower price increases, fairly strong migratory inflows, and historically low mortgage rates bolstered housing demand across the Saskatoon Census Metropolitan Area (CMA), primarily in the multi-family market. In response, regional builders started construction of 2,994 housing units in 2011, up 26 per cent from the prior year. Along with the notable year-over-year gain, last year's production marked the highest annual tally of starts in 28 years.

Figure 1



Source: CMHC, CMHC Forecast (f)

*The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 27 2012.

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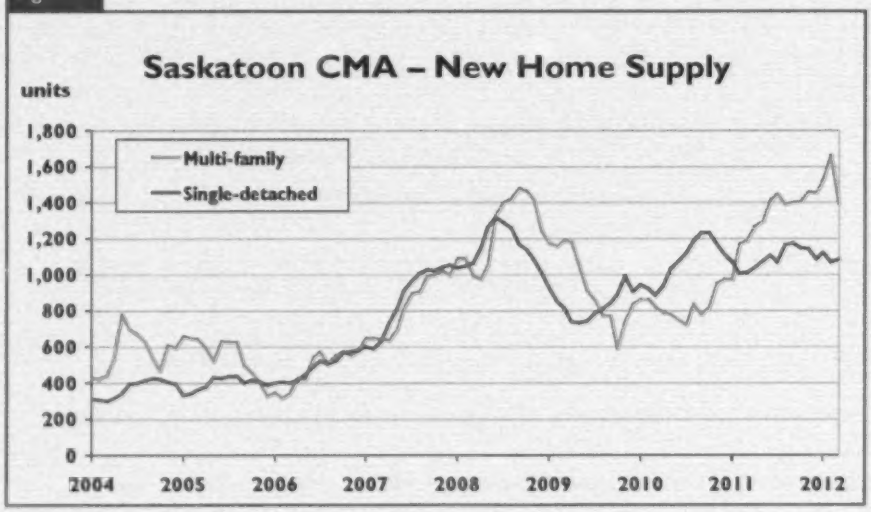
Over the forecast period, improvements in the global economy should support increased demand and higher prices for commodities such as potash, agricultural, and manufactured goods. This will help expand the local economy, strengthen employment and help sustain strong migratory inflows to Saskatoon. These factors, in conjunction with continued low mortgage rates and the combination of federal and provincial first-time homebuyer tax credits will underpin housing demand through the balance of the year and going into 2013.

Countering these positives, competing factors will induce a reduction in housing starts this year, particularly within the multi-family housing sector. Builders will face rising inventories of new homes and heightened competition from the resale market. As a result, total housing starts of 2,850 units this year will mark a five per cent reduction in activity from 2011. Next year, with new home inventories sufficiently depleted, we anticipate that builders will begin construction of 2,875 units, a modest improvement over 2012's production level. In spite of the anticipated reduction in starts this year, annual production in both 2012 and 2013 will rank among the highest in 30 years.

Single-detached builders temper starts in 2012, expand production in 2013

In 2011, Saskatoon's single-detached home builders began construction of 1,608 units, marginally down from 1,638 units a year prior. Despite the year-over-year reduction, last year's performance represented the second highest level of production by the region's single-detached home builders in over 30 years. This, along with 2010's production marked two consecutive years of elevated activity by the region's builders who initiated an average of 135 units each month from 2010 to 2011, almost double the 74 single-detached starts averaged over the prior 10-year period.

Figure 2



Source: CMHC

This heightened pace of starts has maintained an elevated supply of single-detached homes in the Saskatoon CMA, a mitigating factor which will continue to impact housing activity over the forecast period. At 1,090 units, average single-detached supply in the first quarter of 2012, which includes units under construction and those that are completed and unoccupied, was markedly higher than the prior 10-year average of 693 units. At 927 units at the end of the first quarter, units under construction continue to account for the bulk of new single-detached housing supply. Meanwhile, despite a 10 per cent year-over-year reduction, the 156 complete and unabsorbed units in March remained high for the region's builders, who over the last 10 years have typically maintained an average inventory of 67 units.

Elevated new home supply along with competition from the well supplied resale market will provide the major impetus for a modest reduction in single-detached starts this year. As well, a relatively tepid pace of resale price growth is expected over the forecast period. This will inhibit some move-up buying as sellers realize smaller equity gains from the sale of their existing homes. Hence, in spite of a strengthening economy, a modest uptick in net migration, and a return to job growth, we expect a slight moderation in single-detached starts as builders break ground on 1,600 units in 2012. Next year, with supply levels sufficiently depleted and fewer concerns over inventory, single-detached starts will stage a modest uptick as area builders initiate construction of 1,625 units. Notwithstanding the anticipated year-over-year reduction this year, annual starts in 2012 and 2013 will remain elevated by historical standards.

Gradual price increases in 2012 and 2013

On the heels of a 1.4 per cent increase in 2011, Saskatoon's New House Price Index (NHPI) is expected to post stronger advances over the next two years. Statistics Canada's NHPI captures changes in the price of homes where the specifications remain the same between two periods. Elevated residential and non-residential construction activity, together with firming labour market conditions, will exert upward pressure on wages and building costs in Saskatoon. Countering this, increased land availability through development in new neighbourhoods across the region should ease some of the upward pressure on land costs. This will help limit increases in the NHPI to 2.2 and 2.0 per cent in 2012 and 2013, respectively.

In alignment with advances in the NHPI this year and next, the average absorbed price for new single-detached units will record a 2.2 per cent gain this year, going from $389,580 in 2011 to $398,000 in 2012. Next year, with a slight uptick in mortgage rates softening demand for homes at the higher price ranges, expect the average absorbed price of new single-detached homes to rise 2.0 per cent to $406,000 in 2013.

Multi-family starts to decline from last year's high

Following an 87 per cent increase to 1,386 units in 2011, multi-family starts which consist of semi-detached units, rows, and apartments will moderate 10 per cent this year and remain flat in 2013. Builders are expected to embark on annual production of 1,250 units in both 2012 and 2013. Mirroring events in the single-detached segment, elevated supply of new multi-unit dwellings, along with competition from the resale market, will account for the reduction in activity this year. Given elevated starts in 2011, the supply of multi-family housing in Saskatoon, particularly units under construction, attained record highs in the opening months of 2012. The 1,396 units that comprised multi-unit supply at the end of the first quarter marked an 18 per cent advance from the prior year, and ranked among the highest in over 20 years.

Despite the anticipated reduction in starts, strong housing demand reflective of the strong pace of absorptions during the first quarter will ensure that multi-unit builders maintain a relatively strong pace of production through 2013. Persistently low rental apartment vacancy rates, coupled with incentives from multiple levels of government which helped fuel an uptick in rental construction in recent years, will continue to contribute to elevated starts over the forecast period. Meanwhile, demand for ownership oriented units will continue to be fed by residents seeking a lower priced option to the single-detached sector. As well, due to lifestyle advantages for some buyers, apartment and row style condominiums, in particular, will remain attractive for Saskatoon's empty-nesters looking to downsize and capitalize on the equity in their existing homes.

Going forward, multi-unit production will also be supported by on-going public sector initiatives designed to increase homeownership options in Saskatoon. One such initiative is the Mortgage Flexibilities Support Program which resulted in the sale of over 300 designated new homes to qualifying residents since its inception in September 2009. In addition to the factors noted above, demand for multi-family will be supported by a labour market that is projected to stage a return to growth this year. This will reverse the impact of two consecutive years of job losses, contribute to relatively higher migratory inflows to Saskatoon, and feed demand for multi-family homes.

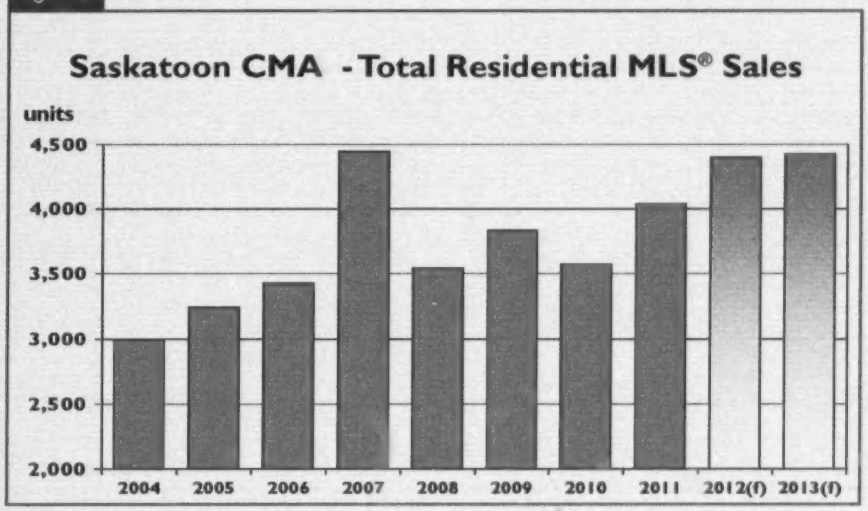
RESALE MARKET

MLS® Sales to advance in 2012 and 2013

Despite the absence of job growth last year, sales of existing homes rose 13 per cent and exceeded 4,000 transactions for only the second time since 1980. Resale transactions were supported by advances in Saskatoon's population and by the prevalence of low mortgage rates which helped cushion some of the effects of rising house prices. Given favourable mortgage rates and the wide choice of homes on offer, many prospective buyers made the move and finalised home purchases in 2011. As well, faced with relatively low rental apartment vacancy rates, some new residents by-passed the rental market and looked to the resale market to meet their housing needs.

Moving forward, demand for resale homes is expected to remain elevated, supported by job and wage growth, as well as continuing population gains. Meanwhile, the prevalence of relatively low mortgage rates and modest price gains will help maintain a tight spread between the cost of renting and owning a home in Saskatoon. This, particularly when contrasted with expectations of low rental apartment vacancy rates which will continue to support rent increases, should fast-track homeownership decisions by

Figure 3



Source: CREA, CMHC Forecast (f)

some households. In addition to the above, public sector incentives in the form of $5,000 and $10,000 federal and provincial first-time homebuyer income tax credits, respectively, will motivate some households to make the leap towards homeownership. Hence, after 4,043 sales in 2011, resale transactions will improve to 4,400 in 2012 and 4,425 sales in 2013.

Sales of higher priced homes contribute to rise in average price

Following a 4.6 per cent increase in 2011, existing home prices in Saskatoon are expected to rise 2.6 per cent to $318,000 this year. This will then be followed by a 2.2 per cent uptick to $325,000 in 2013. In recent years, gains in average resale price have been buoyed by a growing movement to sales of homes with more amenities in higher price ranges as homebuyers took advantage of historically low mortgage rates and equity gains.

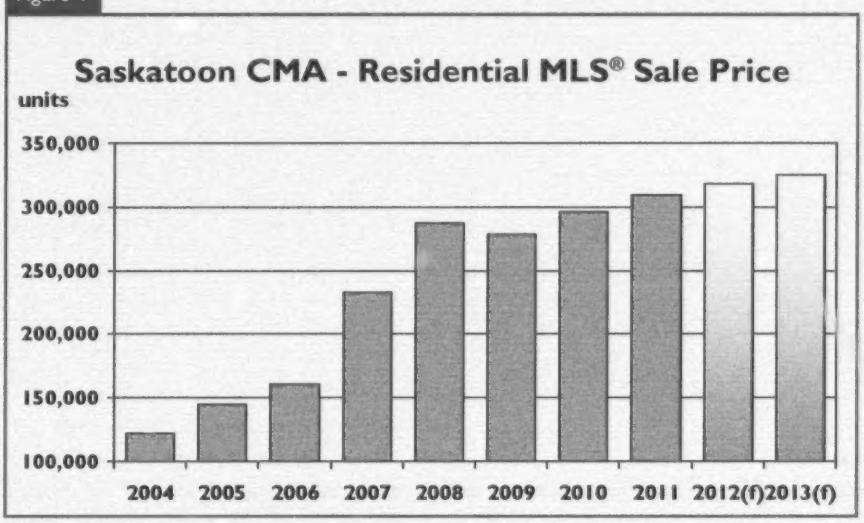
While the combination of low mortgage rates and job and wage growth will help sustain the shift towards higher priced homes, an elevated supply of resale homes will ensure that price growth remains modest by recent standards. Active listings averaged 1,976 units during the first quarter of 2012, up from the previous two years and among the highest in over 25 years. New listings from January to March were up 41 per cent from the corresponding period in 2011. Moving forward, price gains from previous years will continue to encourage more homeowners to list their homes, relieving some of the upward price pressures that would otherwise result from the increased pace of sales this year and next.

RENTAL MARKET

Apartment vacancy rate inches down in 2012, up in 2013

After holding steady at 2.6 per cent the last two years, apartment vacancy rates across Saskatoon will decline to 2.4 per cent in October 2012 before nudging upwards to 2.6 per cent next year. Strong migratory in-flows, particularly an in-flux of international migrants in the second half of 2011, will continue to fuel elevated demand for rental units. Over the forecast period, international migrants are expected to account for the bulk of migratory gains in Saskatoon, thus

Figure 4



Source: CREA, CMHC Forecast (f)

Figure 5

Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

ensuring that downward pressure on vacancy rates is maintained. Meanwhile, advances in both new and resale house prices, although lower than in prior years, will inhibit some renter households from moving to homeownership.

Tempering the reduction in vacancies are additions to the rental universe through the introduction of newly constructed units, as well as continued competition from the secondary rental market. Last year, 388 rental units began construction across Saskatoon, while 102 rental units were completed during the first quarter of this year. Concurrently, a growing number of apartment condominiums are making their way into Saskatoon's secondary rental market, providing increased choice for prospective renters. In 2011, CMHC's October Rental Market Survey revealed that 22.4 per cent of all apartment condominiums surveyed had made their way into Saskatoon's expanding secondary rental market, up from 19.5 per cent a year prior. This represented an increase of 276 units to the universe of 1,590 rental apartment condominium units in 2010.

Average monthly rents to exceed $1,000 by 2013

With strong rental demand maintaining relatively low average vacancy rates over the forecast period, expect increases in average monthly rents this year and next. Nonetheless, property managers will be cautious with the pace of rent increases this year and next in an effort to minimise costly tenant turnover. Mortgage rates will remain relatively low while resale price gains will be modest over the forecast period. The combination of these factors will curtail increases in the monthly cost differential between renting and owning a home. This, along with incentives in the forms of federal and provincial first-time homebuyer income tax allowances will make homeownership an attractive option for some renter households. This should motivate property owners to limit the pace of rent increases moving forward.

Under these conditions, the average monthly rent for a two-bedroom apartment will advance from $966 to $990 in the October 2012 rental market survey, and rise further to $1,010 by October 2013. This will represent monthly increases of $24 and $20, respectively in each year, lower than the $32 monthly rent increase recorded between 2010 and 2011.

ECONOMIC OUTLOOK

Employment expansion to resume in 2012

After modest reductions in 2010 and 2011, average employment is projected to increase by 2.6 and 2.2 per cent in 2012 and 2013, respectively. This will result in the addition of over 3,000 positions annually, and help recover all of the jobs that were lost over the past two years. Last year, a number of factors stalled employment growth in Saskatoon. Weaknesses in price and global demand for natural gas inhibited employment expansion within the mining and oil and gas extraction sector. Concurrently, agricultural processing and exports were impacted by extensive flooding and rainfall across large portions of the province in the spring. Reduced global demand for uranium also wrought a nine per cent decline in production, negating expansion in Saskatoon's transportation and service sectors. Collectively, these factors impeded job growth in Saskatoon

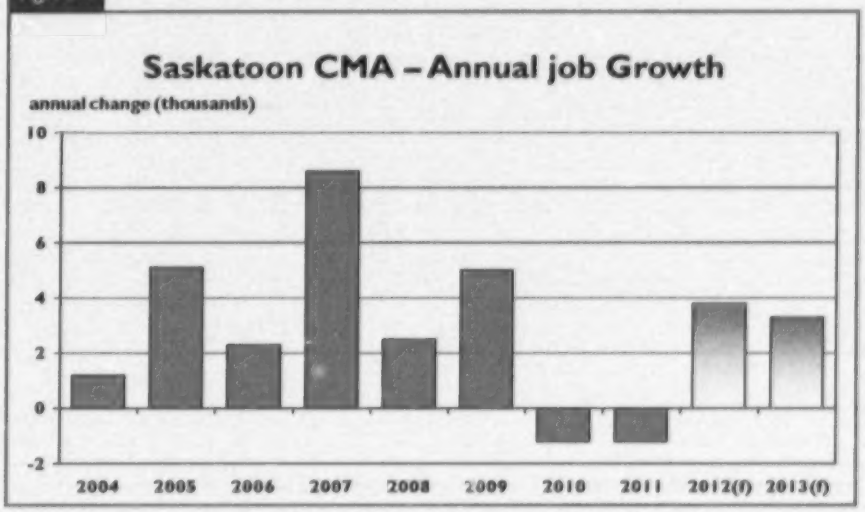
last year, culminating in a 0.8 per cent contraction in employment, representing the loss of about 1,200 positions.

Despite the headwinds encountered in 2011, some bright spots emerged and will contribute to payroll expansions in 2012 and 2013. Elevated world oil prices last year and in the opening months of 2012 led to marked increases in drilling and exploration activity, and have raised the prospects of increased capital spending this year and next. As well, higher potash prices which helped power improvements in production and exports last year, will spur investments in this sector through 2013. One such investment is the $1.5 billion expansion of potash production capacity in one of Saskatoon's surrounding communities.

Over the next two years, Saskatoon's economy will also benefit from a wide range of major public and private sector investment in new and on-going capital projects related to leisure and accommodation, utilities, health, education, security and transportation infrastructure. This will positively impact the region's labour market over the forecast period. Concurrently, continued global economic recovery, particularly a resurgence in Saskatchewan's primary export market, the United States, will further strengthen economic activity and reinvigorate Saskatoon's labour market.

Countering the above factors, however, if a Canadian dollar near or above parity with the U.S. dollar persists over the forecast period, it could inhibit the expansion, especially within the manufacturing and resource sectors. As well, slower gains in consumer spending could weaken payroll expansions in Saskatoon's retail and services sectors. Overall, CMHC anticipates average employment will expand over the next two years, fuelling reductions in the unemployment rate from 5.6 per cent in 2011 to 5.5 and 5.1 per cent in 2012 and 2013, respectively.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

Net migration to improve in 2012, remain elevated in 2013

Following modest year-over-year reductions in 2010 and 2011, net migration into Saskatoon is expected to increase over the forecast period and rank among the highest on record. This strong performance will reflect the region's strong economy, and will be driven in part by the Saskatchewan Immigrant Nominee Program (SINP) which has contributed to elevated in-flows of international migrants in recent years. Last year, international migrants accounted for 90 per cent of the record net in-flow of 11,841 people to Saskatchewan, the bulk of whom chose to settle in either of the two CMAs. A rebounding labour market this year and next will generate strong employment prospects, and ensure that Saskatoon retains one of the lowest unemployment rates in Canada, a factor that will help maintain its appeal to migrants from other centres. Under these conditions, we expect migration to total 5,400 people in each of the next two years.

MORTGAGE RATE OUTLOOK

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Forecast Summary Saskatoon CMA Spring 2012							
	2009	2010	2011	2012F	% chg	2013F	% chg
Resale Market							
MLS® Sales	3,834	3,574	4,043	4,400	8.8	4,425	0.6
MLS® New Listings	6,463	6,756	7,165	7,900	10.3	8,000	1.3
MLS® Average Price ($)	278,895	296,297	309,823	318,000	2.6	325,000	2.2
New Home Market							
Starts:							
Single-Detached	1,101	1,638	1,608	1,600	-0.5	1,625	1.6
Multiples	327	743	1,386	1,250	-9.8	1,250	0.0
Starts - Total	1,428	2,381	2,994	2,850	-4.8	2,875	0.9
Average Price ($):							
Single-Detached	383,234	380,600	389,580	398,000	2.2	406,000	2.0
Median Price ($):							
Single-Detached	373,262	359,239	360,000	369,000	2.5	378,000	2.4
New Housing Price Index (% chg.)	-7.6	2.8	1.4	2.2	-	2.0	-
Rental Market							
October Vacancy Rate (%)	1.9	2.6	2.6	2.4	-	2.6	-
Two-bedroom Average Rent (October) ($)	905	934	966	990	-	1,010	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	147,000	145,900	144,700	148,500	2.6	151,800	2.2
Employment Growth (%)	3.5	-0.7	-0.8	2.6	-	2.2	-
Unemployment rate (%)	4.6	5.4	5.6	5.5	-	5.1	-
Net Migration	5,497	5,359	5,217	5,400	3.5	5,400	0.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 27, 2012.

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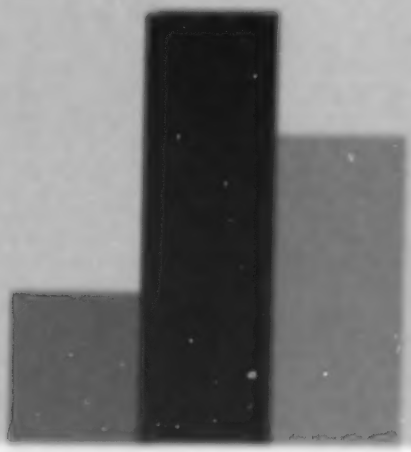

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